

Message Text

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E.O. 11652:

TAGS:EFIN, OECD

SUBJECT:SEPTEMBER 5 MEETING OF WORKING PARTY 3

1. IN RELATIVELY ABBREVIATED SESSION WP-3 CONCURRED BROADLY IN SECRETARIAT ESTIMATES OF WORLD PAYMENTS PATTERNS FOR 1975 BUT FOUND ITSELF UNCERTAIN AS TO CAUSES OF UNEXPECTEDLY ABRUPT AND SEVERE DECLINES IN IMPORTS DURING FIRST HALF 1975 AND HENCE UNABLE ASSESS 1976 PROSPECTS.

2. CHAIRMAN EMMINGER DREW ATTENTION TO \$38 BILLION (ANNUAL RATE) CHANGE IN CURRENT BALANCES OF SIX LARGEST COUNTRIES BETWEEN SECOND HALF 1974 AND FIRST HALF 1975 WHICH TURNED \$18 BILLION DEFICIT INTO EVEN LARGER SURPLUS. WHILE TWO-
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THIRDS OF IMPROVEMENT CAME AT EXPENSE OF OPEC, IT APPEARS THAT LDC DEFICITS INCREASED FURTHER IN FIRST HALF. SMALLER OECD COUNTRIES, AS A GROUP, SHOWED NO MAJOR CHANGE.

3. REPRESENTATIVES OF LARGER COUNTRIES EMPHASIZED "SPECIAL FACTORS" WHICH INFLUENCED SWING IN FIRST HALF AND MOST AGREED WITH SECRETARIAT THAT THERE WOULD BE REVERSION IN SECOND HALF YEAR.

4. U.S. (YEO) SAID IT UNABLE AT THIS TIME ASSESS RELATIVE IMPORTANCE OF INVENTORY RUNDOWN (FOLLOWING INTENSE SPECULATIVE BUILD-UP) AND REVERSION TO MORE NORMAL RELATIONSHIP OF IMPORTS TO GNP WITH ELIMINATION OF EXCESS DEMAND AND WIDESPREAD SUPPLY SHORTAGES IN DOMESTIC ECONOMY. CIRCUMSTANCES STRONGLY SUGGESTED THAT SWING IN INVENTORY CYCLE HAD PLAYED LARGE ROLE -- MUCH LARGER THAN STATISTICS IMPLIED. IMPORTS HAD DECLINED 17. HALF OF REDUCTION IN IMPORTS WAS IN INDUSTRIAL RAW MATERIALS, 20 IN ENERGY, 10 IN FOODSTUFFS AND ONLY 20 IN MANUFACTURES.

5. CESSATION OF INVENTORY RUNOFF COULD LEAD TO PARTIAL RECOVERY IN IMPORT LEVELS QUITE APART FROM INCREASES WHICH COULD BE EXPECTED AS GNP GREW. THUS U.S. WOULD EXPECT SUBSTANTIAL UPTURN IN IMPORTS IN MONTHS AHEAD AND COULD NOT RULE OUT POSSIBILITY THAT TRADE SURPLUS WOULD DECLINE FURTHER AND FASTER THAN SECRETARIAT HAD EXPECTED. U.S. DID RECOGNIZE PROBABILITY THAT U.S. FIRMS WOULD BE ABLE MEET MANY OF THEIR NEEDS FROM DOMESTIC PRODUCTION AS LONG AS SPARE CAPACITY EXISTED IN U.S.

6. SURPLUS IN FIRST HALF HAD ALSO BEEN ENHANCED BY CONTINUED LARGE SCALE DELIVERIES OF AGRICULTURAL PRODUCTS CONTRACTED FOR AT EARLIER DATE. IN SUM, U.S. IMPROVEMENT VERY LARGELY INVENTORY, CYCLICAL AND AGRICULTURAL, WITH STRUCTURAL FACTORS HAVING LESSER SIGNIFICANCE.

7. BRITISH (MITCHELL) SAID THAT EXPORT VOLUME HAD HELD UP VERY WELL WITH EXPORTS TO OPEC IN FIRST HALF UP 140 OVER PREVIOUS SIX MONTHS. HE ATTRIBUTED SITUATION PARTLY TO ORDER BACKLOG AND PARTLY TO IMPROVED COMPETITIVE LIMITED OFFICIAL USE
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POSITION. IMPORT VOLUME HAD FALLEN 9 1/2 REFLECTING INVENTORY ADJUSTMENT AND LOWER DOMESTIC PRODUCTION. FOR NEAR FUTURE HE EXPECTS IMPORTS (EXCEPT FOR OIL) TO RISE AND EXPORTS TO FALL. EXPORT VOLUME WOULD, HE FELT, DEPEND HEAVILY ON SUCCESS OF INCOMES POLICY AND ON WORLD RECOVERY. EXCHANGE RATE CHANGES IN SUMMER MONTHS HAD MORE THAN COMPENSATED FOR INFLATION DIFFERENTIAL. WAS REASONABLY CONFIDENT THAT U.K. WOULD NOT FACE FINANCING PROBLEM ALTHOUGH PROSPECTS WERE AFFECTED BY MARKET IMPRESSION OF SUCCESS OF DOMESTIC POLICIES. FELT UNABLE PROJECT CURRENT ACCOUNT POSITION FOR FIRST HALF OF 1976.

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8. ITALY (IZZO) DREW ATTENTION TO DRAMATIC IMPROVEMENT IN THEIR CURRENT BALANCE (ZERO IN FIRST HALF) WHICH THEY ATTRIBUTED TO IMPORTANT DECLINE OF 18 IN VOLUME AND TO IMPROVEMENT IN TERMS OF TRADE. EXPORTS HAD DROPPED LESS THAN EXPECTED. FOR 1976 PROSPECTS WOULD DEPEND HEAVILY ON EXPORTS.

9. HABERER, SPEAKING FOR FRANCE, SAID FIRST HALF DATA WOULD SHOW SURPLUS OF \$1 BILLION (ANNUAL RATE) WITH SECOND HALF LIKELY BE IN RANGE OF 0 TO \$1 BILLION ANNUAL RATE DEFICIT SINCE ECONOMY LIKELY BE WEAKER THAN SECRETARIAT ESTIMATE.

10. TIETMEYER AND EMMINGER STRESSED REDUCTION IN GERMAN SURPLUS THROUGH 1 RISE IN IMPORTS AND 11 FALL IN EXPORTS (VOLUME) ASSOCIATED WITH 5 DROP IN GNP. IMPORTS FROM DCS UP 5; FROM OPEC DOWN 20. THEY FELT THESE DEVELOPMENTS REFLECTED COMBINATION OF CYCLICAL AND STRUCTURAL FACTORS WITH HEAVY EMPHASIS ON BELATED EFFECTS OF CURRENCY APPRECIATION.

11. DUTCH ESTIMATED THEIR 1975 SURPLUS AT \$1-1/2 BILLION RATHER THAN \$3 BILLION ESTIMATED BY SECRETARIAT. THOUGHT UNLIKELY TO BE SIGNIFICANT CHANGE IN FIRST HALF 1976. EXCHANGE RATE CHANGES BITING VERY SHARPLY, ACCORDING TO OORT. OORT ARGUED THEY COULD NOT REDUCE SURPLUS IN SHORT TERM WITHOUT INCURRING UNACCEPTABLE DEFICITS IN 1980 AND BEYOND WHEN NET ENERGY IMPORTS WOULD RESUME.

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12. GROUP NOTED THAT FINLAND, GREECE, TURKEY, NEW ZEALAND, AND PORTUGAL MAY BE FACING FINANCING PROBLEMS AND THAT SITUATION NEEDS TO BE WATCHED. LDC SITUATION ALSO APPEARED QUESTIONABLE WITH APPARENT LARGE BUILD-UP OF DEBT CONTINUING IN FIRST HALF. SUPPLIERS' CREDIT APPEARED IMPORTANT FACTOR.

13. WP CONCLUDED THAT WHILE U.S. RECOVERY AND CHANGE IN INVENTORY POSITIONS MIGHT OFFER SOME POSITIVE THRUST FOR EUROPEAN ECONOMIES, DECLINE IN EXPORTS TO LDCS WOULD HAVE TO BE EXPECTED AND THAT INTERNATIONAL TRADE UNLIKELY BE MAJOR FORCE FOR GROWTH IN NEAR FUTURE.

14. BRIEF DISCUSSION OF INTEREST RATE SITUATION SUGGESTED THAT IN NEAR TERM U.S. RATES NOT LIKELY TO DECLINE AND RATE DIFFERENTIAL DEPENDED LARGELY ON WHAT HAPPENS TO EUROPEAN RATES.

15. WP NOW EXPECTED MEET NOVEMBER 4 AND MORNING NOVEMBER 5. AGENDA TO FOCUS ON ROLE OF INTERNATIONAL LIQUIDITY IN

THE PRESENT WORLD, FURTHER DISCUSSION OF EXCHANGE RATES,
AND LIKELY PAYMENTS PATTERNS AS ECONOMIC RECOVERY OCCURS.
U.K. (MITCHELL) SUGGESTED THAT BALANCE OF PAYMENTS AIMS
MIGHT BE TAKEN UP UNDER LATTER TOPIC. OORT SUGGESTED
DISCUSSION OF THE IMPACT OF FINANCING LARGE BUDGET DEFICITS
ON INTERNAL MONETARY CONDITIONS, AND ON EXTERNAL FLOWS.
IT WAS AGREED TO DISCUSS THIS AT THE MEETING FOLLOWING
THAT OF NOV. 4. KISSINGER

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